Note 1 - Organization and Summary of Significant Accounting Policies, continued

National Broadband Plan and FCC Order, continued
In 2014 the FCC issued Orders for Reconsideration that included provisions to eliminate the quantile regression benchmarking analysis (this removes the limitations on capital spending contained in the Order), reinstate the safety-net additive that was eliminated as part of the Order and continued the transition of the local rate benchmark.

As of December 31, 2014, the Association is transitioning its local rates and meets the local rate benchmark requirements. The Association is not subject to the $250 per line support cap. Furthermore, for the period ended December 31, 2014 there has not been a significant impact to the Association related to the 5% annual decline in switched access revenues.

The overall reform process will take place in phases and will take several years to implement. Furthermore, the Order includes a Further Notice of Proposed Rulemaking and the FCC continues to issue Orders for Reconsideration and seek comments on various items. As a result, the ultimate outcome of these proceedings and their impact is uncertain at this time.

Reclassification
The presentation of certain prior year information has been reclassified to conform to the presentation in the 2014 financial statements. Such reclassifications have no effect on members' equity or net margin.

Subsequent Events
The Association has evaluated subsequent events through March 28, 2015, which is the date the consolidated financial statements were available to be issued.

Note 2 - Marketable Securities

As mentioned in Note 1, at December 31, 2014 and 2013, all marketable securities have been categorized as available for sale and are stated at fair value in the consolidated financial statements, with unrealized gains and losses included in accumulated other comprehensive loss as a separate component of members' equity.

The Association has adopted a hierarchical disclosure framework, which among other matters, requires enhanced disclosure about investments that are measured and reported at fair value. This framework prioritizes and ranks the level of market price observability used in measuring investments at fair value. The Association's marketable securities are measured and reported at fair value on a recurring basis based on quoted prices available in active markets for identical investments as of the reporting date (Classification Level 1). There have been no changes to the methodologies used at December 31, 2014 and 2013.

At December 31, the Association's securities consisted of the following:

	2014	2013
Fair Value:		
Municipal and corporate bonds, government securities	$ 45,748	$ 292,481
Mutual funds	3,047,475	1,733,648
	3,093,223	2,026,129
Cost	3,187,573	2,111,575
Gross unrealized holding losses	$ 94,350	$ 85,446

Note 2 - Marketable Securities, continued

Gross unrealized holding losses of $94,350 (unrealized holding loss of $85,446 in 2013) are included in accumulated other comprehensive loss, net of deferred taxes of $1,400 in 2014 (none in 2013). Realized gains and losses are determined on the basis of specific identification. Proceeds from the sale of marketable securities for the year ended December 31, 2014 were $1,505,508 ($893,352 in 2013) resulting in a gross realized loss of $10,590 for the year ended December 31, 2014 ($7,948 loss for the year ended December 31, 2013).

The following is a summary of scheduled maturities of marketable debt securities as of December 31, 2014:

	Cost	Fair Value
Amounts maturing in:		
One year or less	$ 48,044	$ 45,748

Note 3 - Inventory

Inventory consists of the following:

	2014	2013
Telecommunications materials and supplies	$ 744,455	$ 512,014
Video materials and supplies	37,982	25,498
	$ 782,437	$ 537,512

Note 4 - Investments

Investments consist of the following:

	2014	2013
RTFC subordinated certificates and allocated capital credits	$ 324,675	$ 324,675
CHR Solutions Inc.	302,677	302,677
ANPI Holding, Inc.	248,309	248,309
Consolidated Business Services, LLC	46,443	44,747
CoBank, equity investment and patronage allocations	85,000	56,469
Other investments	31,987	31,987
	$ 1,039,091	$ 1,008,864

Shares of RTFC subordinated certificates are purchased as a condition of obtaining long-term financing from the RTFC. Holders of subordinated certificates are entitled to patronage dividends.

CoBank is a cooperative bank. Borrowers are required to invest a minimum of $1,000 or 2% of their loan, whichever is less. Patronage dividends are paid annually in cash and in stock at the discretion of the board of directors of CoBank.

Effective September 1, 2012 the Association, along with two other telecommunications companies, formed Consolidated Business Services, LLC to consolidate various administrative functions. Services currently being provided to the companies include accounting, regulatory reporting, management services, and human resources. All three companies have a one-third ownership interest and any net income or loss will be distributed evenly to each company. The Association accounts for the investment using the equity method of accounting whereby the investment is recorded at cost and adjusted for the Association's share of income or loss. In 2014, the Association contributed an additional $28,531 in cash and no income or loss was recorded (the Association contributed $12,441 in cash and recorded a net gain of $813 from the investment in 2013).

Note 5 - Other Assets

Other assets consist of the following at December 31:

	2014	2013
Deferred compensation	$ 80,626	$ 78,061
Nonregulated leased phone equipment	1,489	1,794
	$ 82,115	$ 79,855

Deferred compensation assets represent amounts to be used for payment of deferred credits.

Note 6 - Property, Plant, and Equipment

Listed below are the major classes of property, plant, and equipment in service at December 31:

	2014	2013
Canby Telephone Association		
Cable and wire facilities	$ 25,751,079	$ 24,529,928
Central office	13,580,474	12,895,797
Land, buildings, and support	8,119,426	8,098,518
Amortizable assets	55,890	55,890
Video and satellite equipment	5,044,998	4,490,961
Under construction	216,313	-
	$ 52,768,180	$ 50,071,094
DirectLink of Oregon, Inc.		
Buildings	$ 201,778	$ 201,778
Land and support	169,332	169,332
Cable and wire	298,601	298,601
	669,711	669,711
Mt. Angel Telephone Company		
Land and support	1,068,270	1,058,647
Central office	3,031,228	2,630,713
Cable and wire facilities	2,427,550	2,314,402
Under construction	-	14,429
	6,527,048	6,018,191
	$ 59,964,939	$ 56,758,996

Note 7 - Long-Term Debt

Long-term debt consists of the following:

	2014	2013
Mortgage note payable to CoBank, at 5.72% at December 31, 2014 and 2013, payable in quarterly principal only installments of $76,125, interest payable monthly, collateralized by substantially all real and personal property, due in 2015.	$ 189,625	$ 494,125
Less current portion	189,625	304,500
	$ -	$ 189,625

Note 7 - Long-Term Debt, continued

The long-term debt agreement contains restrictions on the payment of dividends and redemption of capital stock by MATC. The terms of the long-term debt agreement require the maintenance of defined amounts of stockholder's equity and certain financial ratios. Management believes MATC to be in compliance with these covenants at December 31, 2014 and 2013.

Note 8 - Employee Benefit Plans

The Association participates in a contributory, multi-employer, defined-contribution saving plan administered by NTCA, which covers all full-time eligible employees. Employees are not required to make contributions to participate in the plan. Effective May 1, 2013 the plan was amended to allow employer contribution of 4% plus a dollar for dollar match of up to 4%. Additionally, it includes a 4% supplemental employer contribution for employees hired prior to May 1, 2013. The employer also reimburses the participant for any plan fees. Employer contributions to the plan were $439,548 in 2014 ($448,710 in 2013).

Effective January 1, 2013, all employees of MATC were transferred to the Association. As a result, all employee and employer contributions into MATC's 401(k) profit sharing plan (the Plan) ceased as of that date. Effective January 15, 2015 the plan was terminated.

Note 9 - Income Taxes

The following is a summary of the significant components of the deferred tax assets and liabilities as of December 31:

	2014	2013
Current:		
Accrual to cash adjustment	$ (30,000)	$ (42,000)
Unrealized loss on marketable securities	1,400	-
State net operating losses	2,700	-
Current deferred income tax liability	$ (25,900)	$ (42,000)
Noncurrent:		
Property, plant, equipment and goodwill	$ 673,000	$ 838,000
Post-retirement health benefits accrual	39,000	40,000
Noncurrent deferred income tax asset	$ 712,000	$ 878,000

Income tax expense (benefit) consists of the following:

	2014	2013
Operating:		
Deferred provision	$ 151,300	$ 137,500
Current payable	256	125,028
Over accrual	(4,983)	(1,863)
Operating income tax	$ 146,573	$ 260,665
Nonoperating:		
Current payable	$ 59,544	$ 29,472
Over accrual	(9,793)	-
Nonoperating income tax	$ 49,751	$ 29,472

Note 9 - Income Taxes, continued

The provision for income taxes differs from the amount computed by applying the current statutory federal and state income tax rates to earnings before income taxes due to the effects of state taxes (net of federal benefit), nondeductible items, net operating loss deductions, prior year over or under accruals, the use of accelerated depreciation for income tax purposes and the patronage deduction allowed for margins allocated to patrons.

Note 10 - Other Long-Term Liabilities

The Association sponsors a post-retirement benefit plan (the Plan) that provides medical and dental benefits for eligible retired employees and their spouses. The liability for such benefits is unfunded.

At December 31, 2011, the Association amended the Plan to freeze plan benefits and cover only current retirees and those who had accepted an early retirement offer in 2012. The decision to freeze the Plan constituted a curtailment of benefits and resulted in one-time gain from the reduction of the projected benefit obligation of $457,536 as it was anticipated there would be no additional participants in the plan and no future service period or costs. As a result of additional employees who accepted early retirement being included in the plan a new plan valuation was obtained as of December 31, 2013. This resulted in an increase in the accumulated benefit obligation and the resulting amounts being recognized in accumulated other comprehensive income as noted in the table below.

The following table presents the estimated status of the plan at December 31 based on the valuation as of December 31, 2014:

Obligations and Funded Status:	2014	2013
Accumulated postretirement benefit obligation:		
Active plan participants	$ 922,842	$ 1,040,250
Accumulated postretirement benefit obligation	922,842	1,040,250
Fair value of plan assets	-	-
Net unfunded status of the plan	$ 922,842	$ 1,040,250
Amounts Recognized in Accumulated Other Comprehensive Income:		
Unrecognized prior service cost	$ -	$ 210,966
Net actuarial loss	(307,191)	(403,185)
Unrecognized prior service cost and unrealized losses	(307,191)	(192,219)
Accrued Postretirement Benefit Expense	$ 615,651	$ 848,031
Postretirement Expenses Includes the Following Components:		
Interest on accumulated postretirement benefit obligation	$ 40,183	$ 45,399
Changes in Plan Assets and Benefit Obligation Recognized in Other Comprehensive Income:		
Net actuarial gain (loss)	$ 81,731	$ (403,185)
(Recognition) amortization of prior service cost	(210,966)	210,966
Amortization of loss	14,263	-
	(114,972)	(192,219)
Total recognized in net periodic benefit cost and other comprehensive income	$ (74,789)	$ (146,820)
Benefit Payments	$ 69,210	$ 67,216

Note 10 - Other Long-Term Liabilities, continued

Assumptions
For measurement purposes, an 8% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2014 (8% in 2013). The rate was assumed to decrease gradually to 5% at 2017 and remain at that level thereafter. The weighted average discount rate used in determining the accumulated postretirement benefit obligation was 4.5% in 2014 (4.5% in 2013).

Cash Flows
The Association does not expect to contribute to its post-retirement benefit plan in 2015.

Post-retirement Benefits

2015	$ 60,419
2016	63,742
2017	66,929
2018	70,276
2019	73,789
Years 2020 - 2024	428,120

MATC sponsors a non-qualified defined benefit, post-retirement benefit plan which provides certain health care benefits for retired employees and their respective spouses until the date of the retired employee's death. Benefits are based on years of service and the average employee's compensation of the five highest years of employment.

The annual measurement date is December 31 for the post-retirement benefit plan. The following tables provide information about changes in the benefit obligation and plan assets and the funded status of MATC's post-retirement benefit plan:

Obligations and Funded Status

	2014	2013
Benefit obligation at December 31	$ 114,000	$ 117,000
Fair value of plan assets at December 31	-	-
Net unfunded status of the plan	$ (114,000)	$ (117,000)
Benefit payments	$ (12,620)	$ (12,620)
Long-term benefit obligation	$ (114,000)	$ (117,000)
Other post-employment obligations	-	682
	(114,000)	(116,318)
Less current portion	12,620	12,620
	$ (101,380)	$ (103,698)

Assumptions
Weighted average assumptions used in the accounting for MATC's postretirement benefit plan were:

	2014	2013
Weighted-average assumptions used to determine benefit obligations at December 31:	5.75%	5.75%
Weighted average assumptions used to determine net periodic benefit cost for years ended December 31:	5.75%	5.75%